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SUBJECT: CROATIA CIVIL AVIATION REFORM: POSITIVE SIGNS BUT
MANY CHALLENGES TO OVERCOME

1. Summary. Econoff met with the director of the recently formed Croatian Civil Aviation Agency (CCAA) to discuss reform of aviation oversight and the IASA programs. The director appears to have a good grasp of the problems and challenges identified by the FAA during their IASA inspection last year. He also has an ambitious timeline and a carefully thought out strategy for dealing with each area. However, bureaucratic infighting and turf battles with the old Civil Aviation Authority are forcing the CCAA to fight to establish its authority as described in the law. The Agency also faces a significant challenge in getting from its current six employees to a full staff of 55 by the summer. Additionally, questions loom on adequate funding of the agency, which by the summer will rely on industry user fees to function. While the CCAA is due to fully take over its mandate in March, it is uncertain whether the Agency will have enough qualified inspectors and certification administrators on staff in such a short time. End Summary.

2. Former Croatia Airlines executive Omer Pita was named the Director of the new Croatian Civil Aviation Agency last fall, a full year and a half after the Agency was created on paper. He told Econoff that his agency will officially take over its full mandate of oversight, regulation, certification, and surveillance by March. To make this plan realistic will require a rapid increase in staffing from the current six employees, who occupy modern, attractive but almost completely empty office space just outside the center of Zagreb, to a full staff of 55. The CCAA has been promised 25 people from the old Civil Aviation Authority, and they listed advertisements two weeks ago for a number of others, particularly for qualified technical inspectors. Pita said the initial response to the ads has been very promising, but that the Ministry of Transport was dragging its feet in naming the 25 from the old authority who would transfer over. He admitted recruitment of pilots to perform flight operations certification was proving difficult, as qualified current pilots preferred to fly aircraft rather than work for the government agency. He has a plan to hire several Croatian pilots, who currently work with foreign air carriers, on a part-time basis to fill the required positions.

3. Pita claims the CCAA is fully funded for the first quarter and will not be affected by an increasingly unstable budget. Once the Agency assumes its mandate, user fees made up of a combination of route charges, ticket surcharges, cargo surcharges, and certification issuance fees, will kick in and make the CCAA 100 percent industry funded. The economic downturn anticipated for 2009, including reduced passenger and cargo traffic, adds an element of risk to the agency's funding scenario. However, its fiscal situation will be impossible to judge until it assumes operation and

its operating costs become more clear.

¶4. A key area identified by the FAA in its IASA report was the fragmentation of aviation oversight in Croatia across multiple agencies. Despite the creation of a CCAA with full statutory authority over aviation oversight in Croatia, this problem has not been fully addressed. A new aviation law under development in the Ministry of Transport, which is being drafted in part by an EU consultant, would at least partially solve this problem. It would allow the CCAA to absorb the separate Transportation Inspectorate, which previously handled all non-compliance and enforcement issues.

However, according to a senior official at the existing Civil Aviation Authority, progress on development of this law within the Ministry is extremely behind schedule. He complained that, for reasons he could not fathom, the Ministry had just engaged a new EU consultant and the process was back to square one.

¶5. Regardless of what finally emerges in the new law, the old Civil Aviation Authority within the Ministry of Transport will continue to exist, responsible for international agreements and aviation policy matters. According to our contact, the office continues to be dysfunctional. Applications for new routes from European airlines are pending for months with no reply, senior managers lack basic experience with the aviation industry, and bureaucratic infighting continues to hamper their ability to operate efficiently. They are also not being proactive or open in helping the new Agency get on its feet, according to Pita. The result has reportedly been a high level of frustration with Croatia both from European airlines, as well as EU civil aviation authorities.

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¶6. Comment. The director of the new Agency presents a clear action plan which tracks almost identically the areas of concern identified by FAA in the IASA. His strategy for dealing with each area seems reasonable, and he has set an ambitious timeline to complete most reforms by June 2009, when a European Union aviation safety assessment is due to take place. On paper, the Agency has the mandate and the independence to achieve these reforms and function according to international standards. Whether it works in practice and can overcome the bureaucratic problems that plagued the former authority will not be clear until after March. We plan to conduct monthly visits to the new Agency to track Croatia's reform progress.

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